IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

DATATREASURY CORP.	§	No. 2:06CV-165 (DF)
	§	Consolidated with No. 2:06CV-72
Plaintiff	§	(Lead case)
	§	
vs.	§	Hon. David J. Folsom
	§	JURY TRIAL DEMANDED
CITY NATIONAL CORPORATION; and CITY NATIONAL BANK,	§	
	§	
Defendants.	§	
	§	

DEFENDANTS' REPLY BRIEF IN SUPPORT OF THEIR MOTION (1) TO DISMISS FOR LACK OF PROPER VENUE; (2) TO DISMISS FOR FAILURE TO STATE A CLAIM; OR, IN THE ALTERNATIVE, (3) FOR MORE DEFINITE STATEMENT; AND JOINDER IN JOINT MOTION OF DEFENDANTS TO DISMISS, OR IN THE ALTERNATIVE, FOR MORE DEFINITE STATEMENT IN CASE NO. 2:06-CV-72 DF

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I. INTRODUCTION

DataTreasury Corporation ("DTC") responded to the CNB Defendants' Motion to Dismiss in three separate filings. One filing (DTC's "Opposition") addresses the portion of the CNB Defendants' Motion to Dismiss concerning improper venue. (Dkt No. 24.) Another filing (DTC's "Joinder Opposition") addresses the portion of the CNB Defendants' Motion to Dismiss concerning DTC's failure to make a clear statement of its allegations against the CNB Defendants, and incorporates by reference DTC's Response to Defendants' Motion to Dismiss or in the Alternative for a More Definite Statement in Case No. 2:06-CV-72 ("the Wells Fargo Litigation"). (Dkt No. 26.) The third filing is DTC's Motion to Authorize Jurisdictional Discovery Against City National Corporation and City National Bank (Dkt No. 25) ("Motion For Jurisdictional Discovery"), which is also incorporated by reference into DTC's Opposition.

DTC's three filings come nowhere close to refuting the CNB Defendants' factual showing that venue is improper nor meeting DTC's burden of establishing that this case should continue as filed. Instead, they contain numerous misreadings of the facts and the law, apparently to obscure the undeniable truth that (1) City National Corporation ("the Corporation") does not engage in any banking activities at all and has not directed any activities to the District; (2) City National Bank ("the Bank") has not purposefully directed any activities toward the District that could fall within the scope of the patents-in-suit; and (3) DTC's Complaint is so vague and conclusory that it does not give the CNB Defendants fair notice of the allegations against them.

II. VENUE IS IMPROPER WITH RESPECT TO EACH CNB DEFENDANT

The parties seem to agree that venue in the District is proper only if personal jurisdiction is proper. They also seem to agree that ***general*** personal jurisdiction in the District is not proper for either of the CNB Defendants. With respect to ***specific*** personal jurisdiction, however, the parties differ. It is DTC's burden to prove that specific personal jurisdiction is proper over each

Defendant, for each patent-in-suit. *Quick Techs., Inc. v. Sage Group PLC*, 313 F.3d 338, 343 (5th Cir. 2002) (burden); *Silent Drive, Inc. v. Strong Indus.*, 326 F.3d 1194, 1201 (Fed. Cir. 2003) (performing separate personal jurisdiction analysis for separate claims). To do so, DTC must prove that its cause of action sufficiently "arises out of" or "relates to" each Defendant's contacts with the District. *Helicopteros Nacionales de Columbia, S.A. v. Hall*, 466 U.S. 408, 414 (1984). This rule "does not require the court to credit conclusory allegations, even if uncontroverted." *Panda Brandywine Corp v. Potomac Elec. Power Co.*, 253 F.3d 865, 869 (5th Cir. 2001). Here, DTC's personal jurisdiction allegations are both conclusory and controverted.

A. Venue Is Improper With Respect To The Corporation

DTC does not dispute that the Corporation itself has no contacts with the District that could give rise to DTC's claim. This should be the end of the analysis. DTC attempts to manufacture "inconsistencies" between the CNB Defendants' Declarations[1] and the Corporation's 2005 Form 10-K Annual Report ("10-K").[2] There are none. The Corporation is purely a holding company. It performs no banking services. (Hom Decl. at ¶ 3; Spence Decl. at ¶ 3.) The Bank, in contrast, provides banking and related financial services. (10-K, Ex. 1 to Opposition, at 2.) The 10-K refers to "the Company," which is explicitly defined as the Corporation ***combined with*** the Bank. Thus, it is both accurate and consistent to state that the ***Company*** (*i.e.*, the Bank and the Corporation combined) provides banking services while the ***Corporation*** does not.

DTC similarly mischaracterizes the CNB Defendants' arguments by insisting that the Corporation "controls" the Bank. The CNB Defendants have never argued that the Corporation does not control the Bank. Rather, the CNB Defendants have demonstrated that the Corporation performs no banking services and thus cannot be subject to specific personal jurisdiction.[3] (Hom Decl. at ¶ 3; Spence Decl. at ¶ 3.) The degree of control that the Corporation may (or may not) exercise over the Bank and the common employment of some individuals by both entities are irrelevant. In fact, the law is clear that jurisdiction is not proper over a parent company by virtue of its subsidiary's activities without a showing that the Corporation ***itself*** made, used, or sold the accused products. *See, e.g. American Eyewear, Inc. v. Peeper's Sunglasses And Accessories, Inc.*, 106 F.Supp.2d 895, 899-900 (N.D. Tex. 2000) ("A parent corporation is not subject to the jurisdiction of a forum state merely because of the business activity of a subsidiary in that forum. Nor is 100% stock ownership and commonality of officers and directors alone sufficient to establish jurisdiction over a parent through its subsidiary.") (internal citation omitted); *See also 3D Sys., Inc. v. Aarotech Labs, Inc.*, 160 F.3d 1373, 1380 (Fed. Cir. 1998) (ownership of subsidiary subject to personal jurisdiction did not justify exercise of jurisdiction over parent); *see also Benjamin Obdyke Inc. v. Owens Corning*, No. 02-CV-8408, 2004 U.S. Dist. LEXIS 7238, at *9-*10 (E.D. Pa. Mar. 29, 2004) (no jurisdiction over holding company without showing actions on its part to make, use or sell). DTC has not made, and cannot make, such a showing.

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[1] All references to Declarations refer to declarations submitted by individuals in support of the CNB Defendants' Motion to Dismiss. No additional declarations accompany the present brief.

[2] It is notable that aside from quoting from the CNB Defendants' briefs and the 10-K, DTC's argument regarding this manufactured "inconsistency" is virtually word-for-word identical to similar arguments made in DTC's oppositions to several other parties' motions to dismiss for lack of personal jurisdiction in the Wells Fargo litigation. (*See* Dkt Nos. 209-211 in that case.) Although DTC may wish for a one-size-fits-all rebuttal to its various opponents, each defendant is different and the facts regarding each must be evaluated separately.

Finally, DTC argues that the "source of strength" doctrine subjects the Corporation to personal jurisdiction anywhere the Bank could be haled into court. (Opposition at 11.) That is not the law. In fact, the "source of strength" doctrine has nothing to do with personal jurisdiction. Rather, it relates to a bank holding company's ***duty to the federal government in the event of a bank failure.*** Specifically, it requires that each bank holding company "serve as a source of financial and managerial strength to its subsidiary banks" and prohibits bank holding

[3] In fact, as a bank holding company, the Corporation's ability to engage in banking activities is severely limited by law. 12 C.F.R. § 225.28(b).

companies from conducting operations in an unsafe and unsound manner. 12 C.F.R. § 225.4(a). Nor does the doctrine (or the *Branch* case) suggest that a bank holding company would be exempted from the high standards required to pierce a corporate veil in a patent case. *Id.*; *Branch o/b/o Main National Bank v. U.S.*, 69 F.3d 1571, 1581 (Fed. Cir. 1995) (holding that the doctrine permits the Federal Reserve Board to require "a bank holding company . . . to inject capital into a troubled subsidiary bank."). Here, DTC has not alleged—and could not support—that it would be appropriate to pierce the corporate veil to reach the Corporation.

B. Venue Is Improper With Respect To The Bank

DTC's arguments regarding the Bank are no more accurate. DTC argues that because the Bank's website allows customers to view check images, and because the Bank has not blocked use of the Bank's online services by computers in the District, the Bank has purposefully availed itself of the District's jurisdiction. (Opposition at 6-8). DTC is wrong.

First, a user's election to access a website from a given location is a classic example of unilateral activity by a third party. As described in detail in the CNB Defendants' Motion, such unilateral activity does not subject the Bank to jurisdiction in the District, since it does not represent purposeful availment of District jurisdiction.[4] *Helicopteros*, 466 U.S. at 416-17 ("unilateral activity of another party or a third person is not an appropriate consideration when determining whether a defendant has sufficient contacts with a forum State to justify an assertion of jurisdiction"); *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1360-61

[4] DTC relies heavily on *American Eyewear*, a trademark case in which personal jurisdiction was found when a company "regularly transact[ed] business with Texas residents over its [] website" and had physically shipped, its allegedly infringing products to Texas customers. *American Eyewear, Inc. v. Peeper's Sunglasses And Accessories, Inc.*, 106 F.Supp.2d 895, 900-902 (N.D. Tex. 2000). Here, far from shipping products to the District, the Bank has not directed any allegedly infringing activities at the District. The present case is far more like *Origin Instruments*, cited in *American Eyewear*, which the court dismissed for lack of personal jurisdiction although the defendant's website itself bore the allegedly infringing trade name. There, the court stated that "personal jurisdiction should not be premised on the mere possibility that a Defendant may be able to do business with Texans over its website, with nothing more, rather Plaintiff must show that Defendant has 'purposefully availed itself' of the benefits of the forum state and its laws." *Origin Instruments Corp. v. Adaptive Computer Sys., Inc.*, 1999 WL 76794 at *4.

(Fed. Cir. 1998) ("contacts resulting from 'the unilateral activity of another party or third person' are not attributable to a defendant."). Second, Federal Circuit precedent is clear that "the ability of District residents to access the defendants' websites . . . does not by itself show any persistent course of conduct by the defendants in the District." *Trintec Indus., Inc. v. Pedre Promotional Prods., Inc.*, 395 F.3d 1275, 1281 (Fed. Cir. 2005) (defendant's interactive website did not establish specific personal jurisdiction because it was not directed specifically at forum residents and plaintiff failed to introduce evidence that the forum's residents transacted business through the website). For the same reason, DTC fails in its argument that the Bank is subject to jurisdiction in the District merely because it did not terminate its relationships with customers who moved to or acquired addresses in Texas: the unilateral actions of those customers do not subject the Bank to personal jurisdiction in the District.

Moreover, even if any of CNB's customers did use computers in the District to view images of checks, it would not justify the exercise of personal jurisdiction over the Bank because such activity simply is not covered by the asserted patents. DTC's impressionist description of the patents-in-suit as claiming all "systems that capture images, manage them, protect them, and transmit them to remote locations" misleadingly overstates the scope of the patents-in-suit. Although DTC does not identify which of the patents-in-suit purportedly matches this description, it most closely resembles the subject matter of U.S. Patent No. 5,910,988 ("the '988 patent") and U.S. Patent No. 6,032,137 ("the '137 patent") (collectively, "the Ballard patents"). (Weiss Decl. Exs. A and B.) But nearly all of the claims of the Ballard patents contain the express limitation—implied in the remaining claims—that checks (for the '137 patent) or documents and receipts (for the '988 patent) be scanned at a remote location and transmitted to a central location for storage. (*See* '988 patent at col. 22-28; '137 patent at col. 22-28.) That is precisely the opposite of the Bank's online service, in which paper checks are scanned and stored at a central location, and may be accessed by a remote location for viewing. No scanning of checks takes place at a remote location (*i.e.*, the customer's location).[5] (Fertal Decl. at ¶ 5.) Moreover, the Bank's online check viewing capability does not make use of a three-tiered system—a remote data capture subsystem, an intermediate data collecting subsystem, and a central subsystem which communicate with each other—as required by claims 42 and 46 of the '988 patent: Rather, paper checks are scanned and stored at a central processing facility, and when a Bank customer requests a check image, it is accessed directly from that central processing facility. (*Id.*; '988 patent at col. 27-28.) These are just two of the many distinctions between the online banking services available through the Bank's website and the claims of the patents in suit—distinctions that DTC does not even attempt to overcome.

Moreover, DTC overlooks its burden of establishing specific personal jurisdiction for each count of the Complaint—that is, for each patent-in-suit. *See Silent Drive, Inc. v. Strong Indus.*, 326 F.3d 1194, 1201 (Fed. Cir. 2003) (performing separate personal jurisdiction analysis for separate claims). Even if DTC prevails in its arguments based on the Ballard patents—which it should not do—DTC still has not provided any reason why the exercise of personal jurisdiction over the Bank would be appropriate with respect to the other two patents in suit.

Finally, DTC appears to concede that the Bank's limited membership in The Clearing House and its use of local check settlement services does not merit the exercise of personal jurisdiction over the Bank.[6] (Opposition at 9). Nevertheless, DTC asserts that CNB is "engaging in transactions (i.e., imaging and exchanging imaged checks with other Defendant banks) in and through this District with the intent that those transactions occur with residents in Texas." DTC provides no evidence in support for this statement, and none exists. The statement is directly contradicted by the declaration of Joe Fertal, which makes clear that the Bank's procedures for processing checks, documents, and payments are ***not in any way*** directed at the District. (Fertal Decl. at ¶ 2.) Moreover, ***the Bank does not image checks for exchange with other banks***. As Mr. Fertal declared, the Bank's imaging of checks occurs only after the check processing is complete. (Fertal Decl. ¶ 5.) Thus, the Bank has never "exchanged, cleared or settled an image-based transaction that was communicated via another Defendant in or through this District electronically at any point."[7] (Opposition at 9). DTC's assertion to the contrary is pure fiction.

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[5] DTC does not allege personal jurisdiction based on the Bank's City National E-Deposit product, which allows certain qualifying business customers to deposit checks remotely using specialized scanners and software, and which has not been implemented for any person or entity in the District. (Zerrudo Decl. at ¶ 2.)

[6] DTC erroneously states that the Bank uses The Clearing House "for local check image exchange." In fact, the Bank uses The Clearing House only for the local exchange of ***paper*** checks. (Fertal Decl. at ¶ 4).

C. Jurisdictional Discovery Is Not Necessary

DTC's Opposition also incorporates by reference its Motion For Jurisdictional Discovery. Defendants will respond to this Motion separately according to Local Rule CV-7(e). In short, however, the extremely broad discovery DTC seeks is unnecessary, as DTC has not met its burden of presenting a *prima facie* case that jurisdiction is appropriate. Moreover, DTC bases its request for discovery on its own invented "conflicts" between the CNB Defendants' Declarations and other, entirely consistent, facts. Since no such conflicts exist, there is no call for discovery.

III. DTC'S CLAIMS SHOULD BE DISMISSED FOR FAILURE TO STATE A CLAIM OR DTC SHOULD PROVIDE A MORE DEFINITE STATEMENT

DTC has failed to provide each of the CNB Defendants with fair notice of the products and services alleged to infringe the patents in suit, or the specific wrongs each of the CNB Defendants is alleged to have committed. DTC's Complaint does not satisfy basic notice pleading requirements, such as those set forth in Form 16. Even that form, which contemplates

[7] DTC also states that it "has accused CNB of intentionally and purposefully availing itself of this District by exchanging images and clearing checks in or through this District via telecommunications networks in this District." As discussed in section III, DTC's Complaint does not include such an accusation: it makes no mention the products or services accused, much less the use of telecommunication networks. (*See* Complaint, Dkt No. 1.) Regardless, as demonstrated in the CNB Defendants' Declarations, neither of the CNB Defendants exchanges images or clears checks in or through the District via telecommunications networks in the District in such a way as to implicate the patents in suit. Thus, DTC's claims cannot arise out of any such hypothetical contacts.

only one defendant and one patent in suit, sets forth a specific accused product. Here, the greater number of parties, asserted patents, and allegations calls for more specificity, not less. *See In re Papst Licensing GmbH Patent Litig.*, No. CIV. A. MDL 1298, CIV. A. 99-3118, 2001 WL 179926, at *1 (E.D. La. Feb. 22, 2001) (ordering that complaint be amended although plaintiff argued it adhered to Form 16 because "the number of patents and products in the case . . . are far greater than those contemplated in the sample complaint [in Form 16], which would justify a request for greater specificity.").

DTC's reliance on the *Phonometrics* case is similarly misplaced. *Phonometrics* did not deal with the sufficiency of an initial notice pleading. Rather, it dealt with whether plaintiff was required to tailor its amended complaint to conform to the court's interpretation of the meaning of the patent claims following a *Markman* hearing construing the claims. *Phonometrics Inc. v. Hospitality Franchise Sys. Inc.*, 203 F.3d 790, 794 (Fed. Cir. 2000).

Moreover, even if *Phonometrics* did set a standard for notice pleading for patent infringement, DTC has not described the means by which each of the CNB Defendants allegedly infringes. Contrary to DTC's arguments, its reference to "products and services" as the means by which the Defendants allegedly infringe does not provides a same level of detail comparable to the complaints in *OKI Elec. Indus. Co., Ltd. v. LG Semicon Co., Ltd.*, Case No. 97-20310-SW, 1998 U.S. Dist. LEXIS 22507 (N.D. Cal. February 25, 1998); *One World Techs., Ltd. v. Robert Bosch Tool Corp.*, Case No. 04- C-0833, 2004 U.S. Dist. LEXIS 14035 (N.D. Ill. July 20, 2004); and *Jackson v. Illinois Bell Tel. Co.*, Case No. 01-C-8001, 2002 U.S. Dist. LEXIS 13186 (July 3, 2002). In *OKI*, the description of the means was "using devices that embody the patented methods, including 4 megabit and higher density DRAMs." *OKI* at *9. In *One World*, the plaintiffs sued three defendants for infringement of one patent, entitled "Ergonomic Miter Saw Handle." *One World* at *2. In *Jackson*, the description of the means was "each of the defendants has infringed the patent in suit either directly or through acts of contributory infringement or inducement. . . .[one defendant] provides voice mail systems and [the other defendant] sells answering machines." *Jackson* at *3. These are a far cry from DTC's conclusory allegations that the CNB Defendants make, use, sell, or import "products and services" that infringe the patents-in-suit either "directly, contributorily, or through inducement," without specifying any product or theory of infringement that applies to each defendant.

DTC's Complaint—asserting 190 different patent claims against the numerous products and services of the CNB Defendants, and alleging both indirect and direct infringement—more closely resembles the one in *Hewlett-Packard Co. v. Intergraph Corp.*, No. C 03-2517 MJJ, 2003 WL 23884794, at *1-2 (N.D. Cal. Sept. 6, 2003).[8] In that case, the plaintiff alleged that "[Defendant], in violation of 35 U.S.C. § 271, has been and is currently infringing, contributorily infringing, or inducing infringement of [the patents-in-suit] by, among other things, *making, using, offering to sell and/or selling infringing software and hardware products* without authority or license from [Plaintiff]." *Id.* at *1 (punctuation and emphasis in original). The *Hewlett-Packard* court dismissed the complaint, holding that such pleading did not provide the defendant with fair notice of the allegations against it, especially in light of the defendant's production of at least 150 products with more than 4000 end-user applications, all of which could fall under the vague and conclusory allegations found in the complaint. *Id.*

Discovery is not a substitute for adequate pleading under the Federal Rules of Civil Procedure. DTC's allegations of infringing "products and services" and lumped-together allegations of direct and indirect infringement of nearly 200 patent claims do not even meet the

[8] *Hewlett-Packard* was decided three years after *Phonometrics* and five years after *OKI*, two cases on which DTC heavily relies. Furthermore, the court in *Hewlett-Packard* took both of these cases into account and acknowledged the *OKI* ruling but, even though it was from the same court, disagreed with *OKI*'s liberal reading of Rule 8(a)(2) and Form 16. *Hewlett-Packard*, 2003 WL 23884794, at *1, n.2.

level of factual detail provided in the *Hewlett-Packard* complaint and in Form 16. Accordingly, DTC's Complaint does not provide fair notice to the Defendants and should be dismissed.

IV. CONCLUSION

For the foregoing reasons and the reasons set forth in Defendants' Reply In Support Of Motion To Dismiss Or In The Alternative, For More Definite Statement filed in the Wells Fargo Litigation, dismissal is appropriate. Accordingly, the CNB Defendants respectfully request that the CNB Complaint be dismissed for improper of venue. The CNB Defendants also respectfully request that the CNB Complaint be dismissed for failure to state a claim or, in the alternative, that DTC be compelled to set forth its claims against each CNB Defendant in reasonable detail sufficient to identify the accused products, services, or transactions.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the above and foregoing document has been served on June 30, 2006 to all counsel of record who are deemed to have consented to electronic service via the Court's CM/ECF system per Local Rule CV-5(a)(3).

/s/ David I. Gindler
David I. Gindler